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SUBJECT: SCENESETTER FOR A/S GORDON'S VISIT TO LATVIA

¶1. (SBU) Your visit to Riga provides an opportunity to demonstrate our strong support for Latvia at a time when it faces serious economic difficulty. It will also provide us an opportunity to express appreciation for Latvia's efforts to maintain their NATO commitments during the current financial hardships. You are scheduled to meet with Prime Minister Dombrovskis and Foreign Minister Riekstins. Dombrovskis has so far successfully held his governing coalition together under trying circumstances. You should offer support for his efforts while also calling for significant structural reform. Riekstins will repeat many of the points he recently made to the Secretary and will also likely re-extend a request that you participate in this October's "Riga Conference." (An invitation was recently delivered by the Latvian Embassy in Washington.)

Economic crisis straining GOL

¶2. (U) After years of double-digit growth, Latvia's GDP has fallen by 18% in the last year, forcing the GOL to seek assistance from outside sources. In response, the IMF, European Commission, and others offered a loan package, dependent on austerity requirements, to the GOL. In June, the parliament passed amendments to the budget, including cuts in government wages, pensions, and social support payments. The IMF wanted further assurances and negotiated a Letter of Intent, signed by the government and the leaders of coalition parties, promising further adjustments to the 2009 budget and strategies for deficit reduction in coming years.

¶3. (SBU) The government's exit strategy is adoption of the euro by 2014, but they will be hard-pressed to meet the Maastricht criteria of a 3% budget deficit. With the IMF projecting double-digit deficits this year and continued contraction into 2010, reaching the 3% target will require painful fiscal adjustments. We have been supportive of international assistance to Latvia, but have stressed to the GOL that it needs to follow through with meaningful structural reforms. You can expect that both Prime Minister Dombrovskis and Foreign Minister Riekstins will highlight the efforts made to date and will ask for understanding for their politically difficult task. In response, you should express our support for Latvia, but emphasize that single-year stopgap cuts will not be sufficient - long-term strategic thinking, including contingency plans, will be critical. (The IMF, in particular, is concerned that there is no "Plan B" should Latvia find itself unable to follow-through on its current strategy.)

NATO - Latvia active but seeks reassurance

¶4. (U) NATO lies at the core of Latvian security policy. In the wake of events in Georgia last summer, Latvia (and others) began to worry about the Alliance's commitment to Article 5. They were reassured by President Obama's support for NATO contingency planning, but remain nervous regarding their security (including the course of U.S.-Russian relations). The GOL was pleased that former Latvian

Ambassador to the U.S. and NATO Aivis Ronis was recently chosen to participate in NATO Strategic Concept Experts Group.

5.(U) Latvia is a reliable friend and ally. Through multiple deployments in Iraq and Afghanistan, Latvia has demonstrated its support for trans-Atlantic security missions. It has taken casualties in both operations, most recently when 2 Latvians were killed fighting alongside Americans on May 1. Budget cuts have caused the Latvians to cease participation in the NATO mission in Kosovo, the EU mission in Bosnia, and the NATO Response Force, as well as curtail training and procurement. The current focus is maintaining its commitment to Afghanistan, where it has 120 troops serving in the Norwegian-led PRT, 12 serving in various ISAF command elements, as well as an additional 30 troops leading a joint Operational Mentoring and Liaison Team with the Michigan National Guard in RC-East. Despite further cuts in defense spending called for by the IMF, the Defense Minister has personally reassured us that Latvia will remain in Afghanistan for at least the next several years.

¶6. (U) The GOL will also highlight Latvia's participation in the Northern Distribution Network, where it serves as a major transport artery for the shipment of non-lethal supplies to U.S. forces in Afghanistan. Significantly, a survey team from the Defense Logistical Agency will be in Riga the week of August 10 to determine whether Afghan-bound supplies can be sourced from within Latvia. If so, this will provide both a needed boost to the economy as well as help the GOL bolster popular support for Latvia's ISAF mission.

¶7. (U) Latvia has been active in supporting democracy and

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rule of law issues in ex-Soviet nations in the region, particularly Belarus, Ukraine, Georgia and Moldova. It has had to eliminate all funding for these programs due to the economic situation, but is still actively seeking ways to demonstrate its commitment to the cause and show leadership in its "neighborhood." You should thank them for their efforts and encourage them to maintain their dedication to NATO and building the capacity of the other post-Soviet republics.

Other issues

¶8. (U) Jewish Property Restitution: Latvia has a good overall record on property restitution issues. Unfortunately, however, the restitution of a remaining number of communal and heirless private properties has been slowed by a combination of politics, economics, bureaucratic inertia, and some anti- Semitism. A 2006 agreement on this issue fell apart at the last minute. The government has created a task force to study the issue of communal property; we have repeatedly urged that they move from study to action.

We recommend that you raise this issue in your meeting to highlight the importance of finally resolving this painful matter.

¶9. (U) Energy security: Latvia relies entirely on Russia for natural gas imports, and will be losing a source of imported electricity when the nuclear plant at Ignalina, Lithuania is shut at the end of 2009. Thanks to large underground natural gas storage facilities, and a relatively good relationship with Russia on energy issues, Latvian gas supplies are not an immediate concern. The GOL has made plans to build new electrical generation facilities to help with short term needs, and is seeking construction of links to the Nordic electrical grid in the longer term. Plans for a shared Baltic/Poland nuclear plant to replace Ignalina have not progressed. There have been some positive signs in planning regional inter-connections, but we should continue pressing the urgency of moving past general agreements and into implementation.

¶10. (U) Economic and trade ties: The United States is the 8th largest investor in the country, and in 2008, American companies were responsible for approximately 440 million dollars in Foreign Direct Investment. Latvia has created a business-friendly environment that is attractive to foreign companies, although recent developments in Latvian economy and a nearly complete stop to private-sector lending for investment here has made the process of attracting U.S. companies to Latvia more difficult. In addition, corruption and rule of law issues are still major concerns in Latvia that affect American businesses' decision to invest or do business here.

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